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ZNR UUUUU ZZH
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FM AMEMBASSY WELLINGTON
TO RUEHC/SECSTATE WASHDC PRIORITY 5872
INFO RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
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RUCPDOG/USDOC WASHDC PRIORITY 0305
RUEHBS/USEU BRUSSELS PRIORITY

UNCLAS SECTION 01 OF 02 WELLINGTON 000122

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STATE FOR EAP/ANP AND EEB/TPP/ATP AMY WINTON; STATE PASS TO
USTR BARBARA WEISEL

E.O. 12958: N/A

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SUBJECT: NEW ZEALAND'S FOREIGN MINISTER CRITICIZES US DAIRY
SUBSIDY

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¶1. (SBU) In a lunch today with New Zealand Foreign Minister Murray McCully and Charge, the former opened the conversation by noting the New Zealand Government's strong negative reaction to the recent dairy subsidy announcement by the USG. McCully remarked that the decision by the EU and US to promote subsidies is an unhelpful step in the world economy) not just for the dairy sector but also for United States credibility as a free market leader in the international arena. With the world's trade discussions hanging in the balance, now is the time for clear, long-term strategies rather than short-term policies that favor domestic constituents, said McCully. New Zealand sees the United States as the key to moving the world forward on open markets and free trade; the dairy subsidy decision undermines USG credibility as a world leader, believes New Zealand. McCully added that Trade Minister Tim Groser's public comments on the issue were at the positive end of the spectrum of GNZ opinion) a strong indication of the depth of rancor within the government over the USG decision.

¶2. (SBU) In a separate lunch with Embassy Agriculture Attache, the President of Federated Farmers presented a letter for President Obama that begins: &On behalf of the thousands of New Zealand farmers who have farmed without subsidy since 1985, can I respectfully ask why your administration has decided to punish New Zealand for the inefficiency of American Dairy farmers.8 (NOTE: Fed Farmers is the largest organization representing New Zealand farmers. END NOTE.)

¶3. (SBU)The US Dairy Export Incentive Program (DEIP) has received significant media attention in New Zealand, both print and electronic, with all the press treatment highly critical of the U.S. decision. New Zealand Trade Minister Groser has been interviewed by the press and the subject came up in Prime Minister John Key's weekly press conference. Groser characterized DEIP as having "effectively destroyed the immensely difficult exercise" of getting the commitment to eliminate export subsidies as part of the WTO Doha trade talks. Dairy Companies

Association chairman Malcolm Cailey said DEIP showed "complete disregard" for that goal, and a "lousy signal" to the global trading system about US intentions. PM Key said DEIP was "an unhelpful move" that flies in the face of USG statements arguing against protectionism. GNZ officials also worry about possible retaliation from the European Union, which is a much larger exporter than the US and capable of larger subsidies. The subject of subsidies and trade protectionism has appeared in op-ed columns, with the universal opinion being that subsidies undermine free trade.

14. (SBU) Another theme in the press is the destabilizing impact of the USG subsidies on international dairy prices and the negative impact it will have on farm incomes and the overall New Zealand economy. Dairy products account for approximately 25 percent of New Zealand's total merchandise exports and the dairy cooperative Fonterra is New Zealand's largest company. If dairy prices fall, it reverberates throughout the entire economy. NZ Federated Farmers have described the US return to dairy subsidies as a potential catastrophe for New Zealand, saying that, because of these subsidies, NZ will get less for its exports and be substantially poorer. Unlike their US counterparts, NZ dairy producers are not subsidized and are more vulnerable to fluctuations in world prices.

15. (SUB) Fonterra has also expressed concern about the U.S. decision, but their Managing Director for Global Trade, Kelvin Wickham, told the press that "the bigger issue for us is the exchange rate." Fonterra is also surprised that the U.S. took the decision on subsidies now. From Fonterra's standpoint, the EU use of export subsidies was controlled and measured; Fonterra had hoped that the US would have waited until later in the year when

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the markets were more stable to implement any subsidies. Fonterra also believes that the subsidies will not help US dairy producers that much.

6.(SBU) COMMENT: Because agriculture and trade are so important to the New Zealand economy, these issues are often at the heart of the US-NZ bilateral relationship. The issue of subsidies is unlikely to disappear anytime soon, particularly if world dairy prices start coming down.
KEEGAN